Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the matter of) FCC 93-492
Simplification of the Depreciation) CC Docket No. 92-296
Prescription Process)

MISSOURI PUBLIC SERVICE COMMISSION COMMENTS

The Missouri Public Service Commission (MoPSC) submits the following comments in response to the Federal Communications Commission's (FCC's) Order Inviting Comments on Simplification of the Depreciation Prescription Process (Order Inviting Comments).

First, the MoPSC emphasizes that there is a distinction between "local exchange carriers (LECs) regulated under the [FCC's] price cap incentive regulatory model (price cap LECs)"[1] and traditional rate-of-return regulated LECs. If adopted, the FCC's present proposal would only affect price-cap LECs and American Telephone and Telegraph Company;[2] the FCC previously concluded that it should not change the process for prescribing depreciation rates for rate-of-return LECs.[3] The MoPSC concurs with that conclusion.

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[1]Order Inviting Comments, at para. 1.

[2]Id.

[3]Simplification of the Depreciation Prescription Process, Report and Order, CC Docket 92-296, FCC 93-452 (adopted September 23, 1993) (Depreciation Simplification Order), paras. 1-2 .

Second, the MoPSC reiterates its belief that the FCC should not give any LEC the discretion to select its own depreciation rate parameters for any account that constitutes more than two percent of the LEC's total depreciable plant investment.[4] The FCC's Order Inviting Comments proposes depreciation ranges for various accounts that would apply to all price-cap LECs, with little regard to the circumstances of individual LECs. LEC-specific criteria, such as the MoPSC's two percent rule, provide an intermediate position between the traditional rate prescription process for rate-of-return LECs and Option No. 1 (the basic factors range option) as set forth by the FCC.[5]

Third, the MoPSC disputes the propriety of certain proposed ranges, both for projection life and for net salvage. The FCC has already considered and resolved the policy questions that underlie this issue when it rejected proposals that LECs be granted unbridled discretion to select depreciation rates.[6] By permitting LECs discretion to pick depreciation rate parameters within an unduly broad range, the FCC would effectively reverse that decision.

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[4] Simplification of the Depreciation Prescription Process, FCC 92-537, Missouri Public Service Commission Comments (MoPSC Comments), pages 2-3.

[5] Simplification of the Depreciation Prescription Process, Notice of Proposed Rulemaking, CC Docket No. 92-296, FCC 92-537 (NPRM) at paras. 13-29.

[6] See generally Depreciation Simplification Order.

Generally, the magnitude of the difference between the upper bound and the lower bound of the proposed projection life ranges would permit a LEC to change its depreciation expense significantly without justification. For example, the upper bound of projection life ranges exceeds the lower bound by 27% for the motor vehicle account,[7] and 66% for the radio systems account.[8] Of particular note are the two circuit account life ranges, which a LEC could increase up to 57% and 38%,[9] respectively, if it chose. This account encompasses a large proportion of a LEC's investment; therefore, a change in the parameter of the depreciation rate could have a significant effect on depreciation rates. The MoPSC recommends that the FCC reconsider its proposed projection life ranges, and restrict the upper bound to no more than 20% beyond the lower bound.

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[7]Order Inviting Comments, Appendix (Account 2112). Percentage are calculated as follows:

$$\frac{\text{HIGH parameter - LOW parameter}}{\text{LOW parameter}}$$

In the case of the projection life of Motor Vehicles, the percentage was

$$\frac{\text{9.5 years - 7.5 years}}{\text{7.5 years}} = 27\%$$

[8]Id. (Account 2231).

[9]Id. (Account 2232).

The MoPSC believes that the FCC's proposed projection life ranges[10] underestimate the anticipated useful life of non-metallic (i.e. fiber optic, glass) cable. Admittedly, estimating the useful life of non-metallic cable is difficult, because many telecommunications companies have used and kept records on fiber cables for only the last ten years, and they have retired very little fiber to date. Proposing the same projection life range for non-metallic cable as for metallic cable[11] seems inappropriate, however, for several reasons. In contrast to the FCC's 25-30 year projection life range for non-metallic accounts, many companies have life indications for non-metallic cable accounts in the 50-100 year range. Additionally, the literature and experience to date confirms that the fiber cable will not be affected by all the physically destructive influences that effect metallic cable. Moreover, depreciation rates for copper cable often reflect an adjustment for anticipated obsolescence, which would be inappropriate for a fiber account. Public utility commissions may prescribe depreciation rates for metallic cable in excess of the rates indicated by studies, in order to adjust for anticipated obsolescence. The MoPSC does not believe that non-metallic cable faces the same threat of obsolescence that metallic cable does, and knows of no imminently-emerging technology which would render glass fiber obsolete as a transmission medium. For these reasons, the MoPSC urges the FCC to reconsider the projection life ranges for the non-metallic cable accounts and revise them from a projection life range of 25-30 years to a more appropriate range of 35-40 years.

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[10] Id. (Accounts 2421, 2422, 2423).

[11] Id. (Account 2422).

The proposed projection life range for Public Telephones should be revised as well. The alleged need to replace public phones to respond to growing competition may have prompted many participants at FCC joint meetings (three-way meetings) to agree to adopt shorter projection lives for public telephones. This has resulted in a rapid accumulation of depreciation reserves; today, many LECs have accrued 60% to 80% of their total investment in public phones. The FCC should reconsider the proposed range of lives for this account and revise the range from 7-10 years[12] to 10-13 years.

The FCC's proposed ranges for net salvage rates appear unduly broad. Regarding the net salvage range for underground non-metallic cable, the range is -20 to -5 percent.[13] This range is excessive and should be revised. "Net salvage" consists of the salvage value of plant, minus the cost of removing the plant. The cost of removing fiber cable should be relatively low, because nearly all underground fiber cable is installed in large open conduit; disconnecting a fiber cable merely entails twisting a knurled connector and pulling. Also, compared to metallic cable, fiber cable is thinner, weighs less and uses only a fraction of the repeaters and line conditioners. The MoPSC requests that the FCC reconsider the proposed net salvage ranges for the non-metallic cable accounts and adopt a range of approximately -5 to 0 percent for the future net salvage.

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[12] Id. (Account 2351).

[13] Id. (Accounts 2421, 2422, 2423).

Fourth, the MoPSC reiterates that the FCC should insist that LECs maintain appropriate accounting and continuing property records.[14] Companies and regulators alike require such records for determining company-specific survivor curves for range accounts, as envisioned by the FCC.[15] The MoPSC is concerned that companies may fail to maintain records for the range accounts, which could impede the FCC's and the MoPSC's ability to investigate and prescribe proper depreciation rates.[16] The FCC should establish a procedure to ensure proper and adequate accounting and recordkeeping.

Finally, the MoPSC has not found any reference to the type of information to be submitted by a company requesting to use range rates. The MoPSC recommends that the FCC refrain from setting ranges until it has declared what type of information it will require, and has had an opportunity to consider public comment on the matter.

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[14]MoPSC Comments at page 2; NPRM at para. 10.

[15]Depreciation Simplification Order at paras. 29, 38, 63 and n.38.

[16]The MoPSC understands that the FCC Staff has recently requested certain accounting records from various telecommunications companies related to the determination of life, survivor curve, and location of property investment in the buildings accounts. These accounts had been in a "moratorium" situation for many years because the FCC regarded them as "stable" accounts. A "moratorium" refers to the circumstance of setting new depreciation rates on the basis of a "technical update" using previous parameters, rather than on the basis of a study of current depreciation parameters. However, the FCC had directed the companies to maintain records for the accounts and to have them readily available for study, even when no studies were to be prepared for the three-way meetings. The MoPSC understands that the FCC Staff has had difficulty obtaining the records from the companies, which has frustrated the FCC Staff's efforts at oversight.

The MoPSC appreciates the opportunity to comment on these matters.

Respectfully submitted,

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